

IOWA Department of REVENUE

Iowa Leading Indicators Index December 2012 Report

Tax Research and Program Analysis Section
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The Iowa Leading Indicators Index (ILII) fell to 105.9 (100=1999) in December 2012 from 106.0 in October and November. The Iowa non-farm employment coincident index recorded a 0.07 percent rise in December, which extends the streak of employment gains to twenty-seven consecutive months.

The ILII's value fell in December after holding steady in October and November. During the six-month span through December, the ILII increased 0.8 percent (an annualized rate of 1.5 percent). The six-month diffusion index was 75 with six of the eight components (residential building permits, the new orders index, average weekly unemployment claims, the national yield spread, diesel fuel consumption, and the Iowa stock market index) experiencing an increase of more than 0.05 percent over the last half a year.

In December, four of eight Iowa Leading Indicators Index components contributed positively. The positive contributors were the Iowa stock market index, diesel fuel consumption, the national yield spread, and average weekly unemployment claims (inverted). Residential building permits, the agricultural futures profits index, the new orders index, and average weekly manufacturing hours all contributed to the index negatively.

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999-December 2012

Index (1999=100)

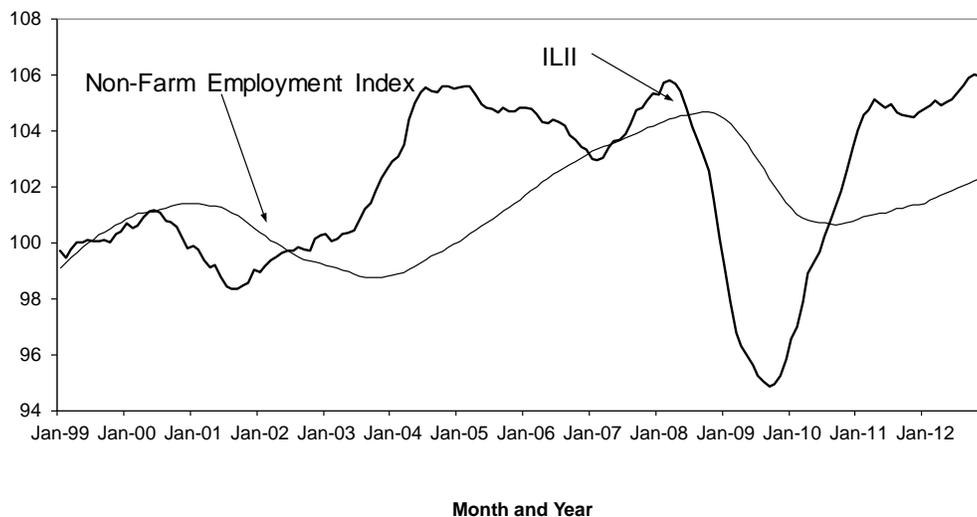


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2012					
	July	August	September	October	November	December
ILII	105.4	105.6	105.9	106.0	106.0	105.9
Percentage Change ^a	0.2%	0.2%	0.3%	0.1%	0.0%	0.0%
Diffusion Index ^b	75.0	75.0	75.0	31.3	25.0	50.0
Six-Month Values	Jan to July	Feb to August	March to Sept	April to October	May to November	June to December
ILII						
Percentage Change	0.6%	0.7%	0.8%	1.0%	0.9%	0.8%
Annualized Percentage Change	1.1%	1.4%	1.5%	2.1%	1.8%	1.5%
Diffusion Index	62.5	75.0	75.0	75.0	56.3	75.0

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced January 30, 2013.

a. Percentage changes in the ILII do not always equal changes in the level of the ILII due to rounding.

b. A diffusion index measures the proportion of components that are rising based on the actual changes (not the standardized contributions to the ILII). Components experiencing increases greater than 0.05 percent are assigned a value of 1.0, components that experience changes less than an absolute value of 0.05 percent are assigned a value of 0.5, and components experiencing decreases greater than 0.05 percent are assigned a value of 0.0.

Table 2. Iowa Leading Indicators Index Components: Six Month Overview

Component Series Monthly Values ^a		2012					
		July	August	September	October	November	December
AFPI ^b	↓ ^c						
Corn Profits (cents per bushel)		295.2	298.8	299.5	305.8	311.7	317.4
Soybean Profits (cents per bushel)		502.4	520.1	541.1	561.3	572.4	581.0
Hog Profits (cents per pound)		24.0	22.7	21.2	19.8	18.7	17.7
Cattle Profits (cents per pound)		-5.2	-6.0	-7.1	-8.4	-9.4	-10.9
Iowa Stock Market Index (10=1984-86)	↑	74.05	75.31	77.31	76.02	72.96	75.11
Yield Spread (10-year less 3-month)	↑	1.43	1.58	1.61	1.65	1.56	1.65
Residential Building Permits	↓	702	721	753	795	826	823
Average Weekly Unemployment Claims ^d	↑	3,421	3,398	3,381	3,389	3,357	3,350
Average Weekly Manufacturing Hours	↓	40.93	40.84	40.84	40.81	40.74	40.65
New Orders Index (percent)	↓	65.4	66.6	67.2	67.4	67.2	66.3
Diesel Fuel Consumption (mil gallons)	↑	54.99	55.05	55.12	55.01	54.89	55.04

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced January 30, 2013.

a. For all component series except for the yield spread and the Iowa stock market index, the values represent 12-month backward moving averages.

b. The agricultural futures profits index is computed as the sum of the standardized symmetric percent changes in the four series, each weighted by the commodity's annual share of Iowa cash farm income (updated August 28, 2012).

c. Arrows indicate the direction of the series' contribution to the ILII for the latest month.

d. Changes in average weekly initial unemployment insurance claims are inverted when added to the ILII, thus a negative change in the series contributes positively to the index.

ILII Components

- **Iowa stock market index:** Capitalization-weighted index of 34 Iowa-based or Iowa-concentrated publicly-traded companies. During December 2012, 28 of the 34 companies gained value, including 10 of the 11 financial-sector companies. The stock market index rose to 75.11, contributing 0.05 to the ILII value.
- **Diesel fuel consumption:** Number of taxable gallons of diesel fuel sold in Iowa. Changes are calculated based on a 12-month moving average. Diesel fuel consumption increased 3.0 percent between December 2011 and 2012, causing the 12-month moving average to rise to 55.04 million gallons from 54.89 in November, and contributing 0.05 to the ILII value.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury notes. During December, the yield spread increased to 1.65 percent as the long-term rate rose 7 basis points and the short-term rate fell 2 basis points. For the month, the yield spread contributed 0.03 to the ILII.
- **Average weekly unemployment claims:** Weekly average of initial claims for unemployment insurance in Iowa. Changes are calculated based on a 12-month moving average and are inverted when added to the ILII. This component contributed 0.01 to the ILII value. The 12-month moving average of claims fell to 3,350 with unemployment claims for the month 1.2 percent below December 2012 claims, but 1.5 percent above average historical claims for December (1987-2008).
- **Residential building permits:** Number of total permits issued in Iowa for the construction of residential housing units. Changes are calculated based on a 12-month moving average. For December, this component contributed -0.01 to the ILII with the 12-month moving average decreasing to 823. December 2012 permits were 6.4 percent below the number of permits issued in December 2011, and 39.4 percent below the historical average for December (1998-2008).
- **Agricultural futures profits index:** Composite measure of corn, soybean, hog, and cattle expected profits, measured as the futures price less estimated breakeven costs, weighted by the respective share of Iowa annual cash receipts. Changes are calculated based on a 12-month moving average. During December, this component contributed -0.02 to the ILII value. Expected profits rose for both grains but fell for both livestock components. Compared to last year, corn prices are up 18.1 percent and soybean prices are up 15.9 percent, increasing expected profitability for both in December. Cattle prices are up 6.0 percent over last year, but that increase was not enough to offset higher production costs. Hog prices decreased 0.6 percent over last year and expected profitability fell.
- **New orders index:** Diffusion index measuring the share of purchasing managers in Iowa reporting increases in orders received for manufacturing output. Changes are calculated based on a 12-month moving average. In December, the monthly value of the index rose from 53.5 in November to 54.9, but it was below the value of 65.3 from a year ago. The 12-month moving average of the new orders index fell to 66.3, contributing -0.05 to the ILII.
- **Average weekly manufacturing hours:** Weekly average of hours worked in the manufacturing sector in Iowa. Changes are calculated based on a 12-month moving average. For December 2012, this component contributed -0.06 to the ILII value after decreasing to 40.65 from a revised 40.74 in November. December 2012 hours were 40.8 compared to 41.9 hours in December 2011.

Table 3. ILII Components and Standardization Factors for FY 2013

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.049
Iowa Stock Market Index	0.018
Yield Spread	0.328
Building Permits	0.036
Average Weekly Unemployment Claims	0.033
Average Weekly Manufacturing Hours	0.284
New Orders Index	0.063
Diesel Fuel Consumption	0.188

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 28, 2012
The standardization factors are the inverse of the standard deviation of the month-to-month changes in each component over the January 1999 to June 2012 period. These factors equalize the volatility of the contribution from each component and are normalized to one. The month-to-month changes are based on 12-month backward moving averages for all components except the yield spread and the Iowa stock market index. The yield spread and new orders index changes are simple arithmetic changes; month-to-month changes for the rest of the components are computed as symmetric percentage changes. The factors are updated annually during August.

Comments

The Iowa Leading Indicators Index (ILII) is designed to forecast the future direction of economic activity in the state of Iowa. The techniques used to build the ILII follow those used by The Conference Board to construct the national Leading Economics Index (LEI) prior to the 2001 revisions. A one-month movement in such an index does not produce a clear signal, rather it is necessary to consider the direction of the index over several consecutive months. A contraction signal in the ILII is considered reliable when two conditions are met: 1. The index declines by at least two percent over a six month period (using an annualized rate); and, 2. A majority of the individual components decline over those six months (the six-month diffusion index less than 50.0).

The Iowa non-farm employment coincident index measures the change in non-seasonally adjusted, total non-farm employment in the state of Iowa. Changes are based on a 12-month moving average of employment and are computed as symmetric percentage changes. The index is a representation of overall economic activity in Iowa.

The employment index and the ILII are constructed to have a value of 100 in the year 1999.

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